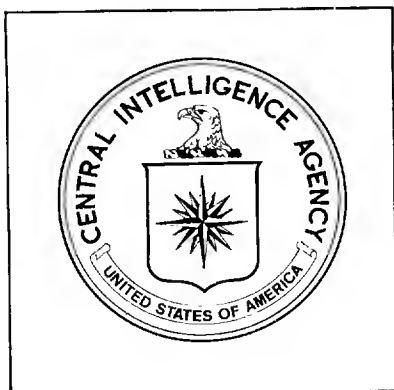


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WESTERN EUROPE – CANADA – INTERNATIONAL ORGANIZATIONS

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The Icelandic government obviously is in no hurry to conclude another agreement, particularly when domestic sentiment unanimously favors a pact that would increase restrictions on the operations of foreign trawlers off Iceland. The British, on the other hand, want a new pact in hand when the current agreement expires in mid-November to avoid heating up the "cod war." (Confidential)

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Italian Political Debate Still Centered on
Communist Question

As the tempo of Italian political activity picks up after the August holiday, debate is centering on the relationship between the government and the Communists and its effect on economic recovery efforts.

Since the Communist Party's unprecedented gains in the regional and local elections three months ago, many Italian politicians have tended to approach the question of the Communist role in more pragmatic terms. A speech by Prime Minister Moro last week--his first major policy statement since the elections--illustrates the point.

While continuing to rule out Communist membership in the government, Moro said that "no one could ignore" the Communist Party's strength and weight in the country. He declared himself ready to exchange views with the Communists on economic policy and acknowledged that the Communists could play an important role in the recovery effort.

Most government leaders agree with Moro that some kind of dialogue with the Communists is essential--it has taken place behind the scenes for years--but the real question is whether it should be brought out into the open and formalized. Moro sidestepped the issue by noting that it is up to the parties rather than the government to decide if and how the Communists should be associated with the majority.

That is one of the issues that have kept Moro's Christian Democratic Party in a state of disarray since the elections.

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The party has had little success so far in deciding how to deal with the Socialists, who say they will not join the Christian Democrats in another national government that leaves the Communists totally in the opposition.

Although Socialist leader De Martino is also against full-fledged Communist participation at the national level, he wants some arrangement, such as formalized consultations, that would "obligate" the Communists to support the government's program. De Martino's main goal is to limit Communist freedom to criticize government actions--a situation that gives the Communists an edge in competing with the Socialists for the votes of dissatisfied Italians.

Many Christian Democrats fear, however, that such a formula would blur the distinction between majority and opposition and establish a precedent for broader collaboration with the Communists. The Communists see advantages and disadvantages for themselves in the dispute, but have served notice that they are not about to accept "responsibility without power."

What everyone wants from the Communists right now is evidence that their union leaders are going to follow through on an earlier pledge to encourage labor moderation in major contract negotiations this fall. Communist union leaders are largely responsible for the decision of Italy's major labor organization to stress job security rather than excessive wage demands that would undercut the recovery effort. Unemployment now exceeds one million and the situation is potentially explosive in some areas such as Naples, where more than 10 percent of the jobless are concentrated.

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There are signs that the rank-and-file are unhappy with the leadership's soft line on wages, and the contract negotiations will be viewed as an important test of the effect the Communist gains have had on the party's ability and willingness to play a responsible role. (Confidential)

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